

December 19, 2014

Via Hand Delivery and E-mail

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Susan M. Hudson
Clerk
Vermont Public Service Board
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Re: Docket No. 7970
Update of Estimated Capital Costs Pursuant to Public Service Board Rule 5.409

Dear Mrs. Hudson:

Today's filing provides Vermont Gas' revised budget for Phase 1 of the Addison Rutland Natural Gas Project (ARNGP) pursuant to Vermont Public Service Board ("Board") Rule 5.409. As reported by Mr. Gilbert in his September 22, 2014 prefiled testimony concerning the July, 2014 re-baselined estimate, VGS committed¹ to develop future Project cost estimates using best practice cost estimating standards such as those established by the Association for the Advancement of Cost Engineering ("AACE") International. VGS also committed to provide regular, quarterly cost estimates to the Board.²

The AACE uses 5 estimate classes to establish guidance on contingency levels, with 5 being the least mature and 1 being the most mature. The guidance is primarily based on the maturity of project deliverables, and then the level of estimate accuracy at the time it is prepared. In addition to reconstructing the budget using industry standards, VGS performed a detailed risk analysis to guide the development of the appropriate level of contingency. As a result of applying this analysis using AACE standards, the budget for Phase 1 is now estimated at \$154 million -- a class 3, \$138 million cost estimate, plus a \$16 million contingency -- if the Project is completed without additional delays or unexpected cost pressures.

Rather than wait for the next regularly scheduled budget update in January, the Company wanted to share this information with the Board and parties immediately and candidly. The Company is currently in the process of developing supporting analysis and testimony with a full explanation of the budget process that led to the current budget number, along with analysis supporting the continued substantial economic and environmental benefits of the Project. VGS plans to file

¹ Docket No. 7979-On Remand, 9/22/14 Gilbert pft at p.3, lines 1-5.

² Docket 7970-On Remand, Order of 10/10/14 at 12, citing tr. 9/26/14 at 51-53 (Simollardes).

supporting testimony material in early 2015 and, after giving the other parties an appropriate time to comment, welcomes the opportunity to make a presentation to the Board.

Thank you for your attention to this matter.

Very truly yours,



Kimberly K. Hayden

cc: Service List (by email and U.S. mail)

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